

**FISCAL NOTE**

**Bill #:** HB0485                      **Title:** Extend income tax exemption for military duty  
**Primary Sponsor:** Himmelberger, D                      **Status:** As Introduced

Sponsor signature	Date	David Ewer, Budget Director	Date
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**Fiscal Summary**

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<b>Expenditures:</b>		
General Fund	\$0	\$0
<b>Revenue:</b>		
General Fund	(\$1,000,000)	(\$1,000,000)
<b>Net Impact on General Fund Balance:</b>	(\$1,000,000)	(\$1,000,000)

- |   |  |
|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact<br><input type="checkbox"/> Included in the Executive Budget<br><input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Technical Concerns<br><input type="checkbox"/> Significant Long-Term Impacts<br><input type="checkbox"/> Needs to be included in HB 2 |
|---|--|

**Fiscal Analysis**

ASSUMPTIONS:

- Under current law, payments made under the World War 1 bonus law, Korean War bonus law, and the veterans' bonus law are exempt from taxation. Also exempt is any salary received from the armed forces by a Montana resident serving on active duty.
- Under this bill, any salary received by a Montana resident under the provisions of Title 10 or 32 of the United States Code who entered into military service, including the national guard or the reserves, would be exempt from taxation. This bill would also exempt any salary received by a member of the state militia that is received in connection with duty performed in an officially recognized disaster or emergency.
- Based on information provided by the Montana Army National Guard, it is estimated that approximately \$25 million in wages and salaries currently subject to individual income tax would be exempt under this proposal. In tax year 2003, full-year resident Montanans had a total of \$538.2 million in individual income tax liability related to \$13.572 billion in Montana adjusted gross income. This represents an average tax rate of about 4% on income. Assuming this average rate, exempting the above \$25 million in income would reduce tax revenue by \$1 million annually. Revenues in FY 2006 and FY 2007 would be reduced by this amount.
- There is no impact to administrative expenses from this bill.

**Fiscal Note Request HB0485, As Introduced**  
(continued)

FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$(1,000,000)	\$(1,000,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$(1,000,000)	\$(1,000,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:  
None.

LONG-RANGE IMPACTS:

Revenues would be reduced by about \$1,000,000 in FY 2008 and thereafter.

## HOUSE BILL NO. 485

INTRODUCED BY D. HIMMELBERGER

A BILL FOR AN ACT ENTITLED: "AN ACT EXEMPTING FROM INDIVIDUAL INCOME TAXATION THE SALARY RECEIVED BY A MONTANA RESIDENT UNDER TITLE 10 OR 32 OF THE UNITED STATES CODE AND THE SALARY RECEIVED BY A RESIDENT MEMBER OF THE STATE MILITIA WHILE ON DUTY IN CONNECTION WITH A STATE-DECLARED DISASTER OR EMERGENCY; AMENDING SECTION 15-30-116, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

**Section 1.** Section 15-30-116, MCA, is amended to read:

**"15-30-116. Veterans' bonus or Exemption of military salary -- exemptions.** ~~(1) All payments made under the World War I bonus law, Korean bonus law, and the veterans' bonus law are hereby exempt from taxation under the income tax laws of the state of Montana, and any income tax which has been or may hereafter be paid on income received from this source shall be considered an overpayment and shall be refunded upon the filing of an amended return and a verified claim for refund on forms prescribed by the department in the same manner as other income tax refund claims are paid.~~

~~———— (2)(1) The salary received from the armed forces by residents a resident of Montana who are serving on active duty in the regular armed forces under the provisions of Title 10 or 32 of the United States Code and who entered into active duty military service, including the national guard or as a reservist in the armed forces, from Montana is exempt from state income tax taxation under this chapter.~~

(2) The salary received by a Montana resident who is a member of the state militia provided for in 10-1-103 for duty required of the member in connection with a disaster or emergency that has been declared by the proper authority of the state pursuant to Article VI, section 13, of the Montana constitution is exempt from taxation under this chapter."

**NEW SECTION. Section 2. Effective date.** [This act] is effective on passage and approval.

**NEW SECTION. Section 3. Retroactive applicability.** [This act] applies retroactively, within the

1 meaning of 1-2-109, to tax years beginning after December 31, 2004.

2 - END -



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

<b>Bill #</b>	HB0637	<b>Title:</b>	Provide income tax exemption for military service
<b>Primary Sponsor:</b>	Klock, Harry	<b>Status:</b>	As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b>Revenue:</b>				
General Fund	(\$3,510,000)	(\$2,340,000)	(\$2,340,000)	(\$2,340,000)
<b>Net Impact-General Fund Balance</b>	<u>(\$3,510,000)</u>	<u>(\$2,340,000)</u>	<u>(\$2,340,000)</u>	<u>(\$2,340,000)</u>

### Description of fiscal impact:

This bill would exempt military pay of Montana National Guard and Reserve members from state income tax. This would reduce general fund revenue by \$2.34 million per year.

### FISCAL ANALYSIS

#### Assumptions:

- Current law (15-30-116, MCA) exempts military salaries of members of the armed forces on active duty from the state income tax. This bill would expand that exemption to cover the military salaries paid to national guard and reserve members, beginning with tax year 2007. It would not exempt the salaries of civilian employees.
- Total salaries paid to the Montana National Guard that would be exempted by this bill were \$33.7 million in 2006 (Department of Military Affairs). Total salaries in future years are assumed to be the same.
- The number of Montana reservists is 27.5% of the number of National Guard members (U.S. Department of Defense). Assuming that, on average, annual salaries for reservists and Guard members are the same, total salaries paid to Montana Guard and Reserve members are \$43.0 million per year (127.5% x \$33.7 million).
- For 2005, the average marginal tax rate of residents with taxable income was 5.44%. The average marginal rate will be the same in future years.

**Fiscal Note Request – As Introduced***(continued)*

5. This bill will reduce tax liability by \$2.34 million (5.44% x \$43.0 million) per year.
6. This bill would be effective on passage and approval. State taxes would no longer be withheld from Guard and Reserve members' military salaries, beginning in July 2007. This would reduce income taxes paid by \$2.34 million each fiscal year. In addition, Guard and Reserve members would have \$1.17 million in taxes that were withheld in the first half of 2007 refunded in the spring of FY 2008. This bill would reduce general fund revenue by \$3.51 million in FY 2008 (\$2.34 million + \$1.17 million) and by \$2.34 million in FY 2009 and later years.
7. This bill would not affect the Department of Revenue's costs of administering the individual income tax.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b><u>Revenues:</u></b>				
General Fund (01)	<u>(\$3,510,000)</u>	<u>\$2,340,000</u>	<u>\$2,340,000</u>	<u>\$2,340,000</u>
<b>TOTAL Revenues</b>	<u><u>(\$3,510,000)</u></u>	<u><u>\$2,340,000</u></u>	<u><u>\$2,340,000</u></u>	<u><u>\$2,340,000</u></u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$3,510,000)	\$2,340,000	\$2,340,000	\$2,340,000

**Long-Range Impacts:**

1. The revenue reduction from this bill would continue after FY 2011.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*

## HOUSE BILL NO. 637

INTRODUCED BY H. KLOCK

A BILL FOR AN ACT ENTITLED: "AN ACT EXEMPTING FROM INDIVIDUAL INCOME TAXATION THE SALARY RECEIVED BY A MONTANA RESIDENT UNDER TITLE 10 OR 32 OF THE UNITED STATES CODE AND THE SALARY RECEIVED BY A RESIDENT MEMBER OF THE STATE MILITIA WHILE ON DUTY IN CONNECTION WITH A STATE-DECLARED DISASTER OR EMERGENCY; AMENDING SECTION 15-30-116, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

**Section 1.** Section 15-30-116, MCA, is amended to read:

**"15-30-116. (Temporary) Veterans' bonus or military salary -- exemptions.** (1) All payments made under the World War I bonus law, the Korean bonus law, and the veterans' bonus law are exempt from taxation under this chapter. Any income tax that has been or may be paid on income received from the World War I bonus law, the Korean bonus law, and the veterans' bonus law is considered an overpayment and must be refunded upon the filing of an amended return and a verified claim for refund on forms prescribed by the department in the same manner as other income tax refund claims are paid.

(2) The salary received ~~from the armed forces by residents~~ a resident of Montana ~~who are serving on active duty in the regular armed forces and who entered into active duty from Montana under the provisions of Title 10 or 32 of the United States Code for military service, including the national guard or as a reservist in the armed forces,~~ is exempt from ~~state income tax~~ taxation under this chapter.

(3) The salary received by a Montana resident who is a member of the state militia provided for in 10-1-103 for duty required of the member in connection with a disaster or emergency that has been declared by the proper authority of the state pursuant to Article VI, section 13, of the Montana constitution is exempt from taxation under this chapter.

~~(3)(4)~~ (4) The amount received pursuant to 10-1-1104 or from the federal government by a service member, as defined in 10-1-1102, as reimbursement for group life insurance premiums paid is considered to be a bonus and is exempt from taxation under this chapter. (Terminates on occurrence of contingency--sec. 9, Ch. 604, L. 2005.)

**15-30-116. (Effective on occurrence of contingency) Veterans' bonus or Exemption of military salary --exemptions.** (1) All payments made under the World War I bonus law, the Korean bonus law, and the veterans' bonus law are hereby exempt from taxation under the income tax laws of the state of Montana, and any income tax which has been or may hereafter be paid on income received from this source shall be considered an overpayment and shall be refunded upon the filing of an amended return and a verified claim for refund on forms prescribed by the department in the same manner as other income tax refund claims are paid.

~~(2)(1) The salary received from the armed forces by residents a resident of Montana who are serving on active duty in the regular armed forces and who entered into active duty from Montana under the provisions of Title 10 or 32 of the United States Code for military service, including the national guard or as a reservist in the armed forces, is exempt from state income tax taxation under this chapter.~~

(2) The salary received by a Montana resident who is a member of the state militia provided for in 10-1-103 for duty required of the member in connection with a disaster or emergency that has been declared by the proper authority of the state pursuant to Article VI, section 13, of the Montana constitution is exempt from taxation under this chapter."

**NEW SECTION.** **Section 2. Effective date.** [This act] is effective on passage and approval.

**NEW SECTION.** **Section 3. Retroactive applicability.** [This act] applies retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 2006.

- END -





GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	HB0206	<b>Title:</b>	Exempt military salaries from state income tax
<b>Primary Sponsor:</b>	Klock, Harry	<b>Status:</b>	As Introduced-Revised

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$2,133,000)	(\$1,533,000)	(\$1,533,000)	(\$1,533,000)
<b>Net Impact-General Fund Balance</b>	<u>(\$2,133,000)</u>	<u>(\$1,533,000)</u>	<u>(\$1,533,000)</u>	<u>(\$1,533,000)</u>

**Description of fiscal impact:** This bill would expand the income tax exemption for military salaries to include the National Guard and Reserves. This would reduce general fund revenue by about \$1.5 million per year.

### FISCAL ANALYSIS

#### Assumptions:

- Under current law, military salaries received by members of the regular armed forces and by members of the National Guard and reserves who are on active duty are not subject to state income tax. This bill would extend that exemption to all military salaries of members of the National Guard and reserves, beginning with tax year 2009. (See Technical Note.) It would not exempt the civilian portion of salaries made by members of the National Guard and reserves.
- Total salaries paid to the Montana National Guard and Reserves that would be exempted by this bill were \$30.5 million in 2008 (Department of Military Affairs). Because deployments are expected to offset annual pay raises, total salaries in future years are assumed to be the same.
- Most members of the Guard and Reserves have other jobs, and would continue to be subject to income tax on their non-military income. The reduction in tax liability for an affected taxpayer is found by multiplying the change in taxable income by the marginal tax rate. Some taxpayers affected by this bill would be moved to a lower tax bracket because of the reduction in their taxable income. For those

taxpayers, the reduction in tax liability would be the reduction in taxable income multiplied by a weighted average of their current marginal tax rate and their marginal tax rate with this bill in effect.

4. For 2007, the average marginal tax rate was 5.525%. To take into account taxpayers being moved to lower tax brackets, the weighted average marginal rate for taxpayers affected by this bill is assumed to be 0.5% lower, or 5.025%. The average marginal rate is assumed to be the same in future years.
5. This bill would reduce tax liability by \$1.533 million ( $5.025\% \times \$30.5$  million) per year. Each fiscal year, income tax revenue will be reduced through lower withholding during the fiscal year and larger refunds or smaller payments with returns from the previous tax year. In each fiscal year, beginning with FY 2010, revenue will be reduced by the annual reduction in tax liability.
6. This bill would be effective on passage and approval and would apply retroactively to all of tax year 2009. Guard and Reserve members would have had taxes withheld from their salaries under current law during the first half of tax year 2009, which is in FY 2009. Thus, there would be no revenue reduction in FY 2009.
7. The revenue reduction associated with lower tax liability in FY 2009 will occur in FY 2010. Taxes withheld from Guard and Reserve salaries during the first half of tax year 2009 would be refunded when Guard and Reserve members file their 2009 tax returns in FY 2010. Withholding from guard and reserve salaries is approximately \$1.2 million per year (Department of Military Affairs). Revenue in FY 2010 would be reduced by \$2.133 million (\$1.533 million in lower payments in FY 2010 + \$0.6 million refunds from FY 2009).
8. Changes to tax forms required by this bill will be made as part of the annual update process with no additional costs to the Department of Revenue.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b><u>Revenues:</u></b>				
General Fund (01)	(\$2,133,000)	(\$1,533,000)	(\$1,533,000)	(\$1,533,000)
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$2,133,000)	(\$1,533,000)	(\$1,533,000)	(\$1,533,000)

**Technical Notes:**

1. This bill may raise issues of federal pre-emption of state taxing authority. The section of federal law, 4USC111, that allows states to impose income tax on federal salaries, allows states to do so only "if the taxation does not discriminate against the officer or employee because of the source of the pay or compensation." This bill may discriminate against federal employees whose salaries are paid from one source by exempting salaries paid from another source.

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*Sponsor's Initials*


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*Date*


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*Budget Director's Initials*


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*Date*

## HOUSE BILL NO. 206

INTRODUCED BY H. KLOCK

A BILL FOR AN ACT ENTITLED: "AN ACT EXEMPTING FROM INDIVIDUAL INCOME TAXATION THE SALARY RECEIVED BY A MONTANA RESIDENT UNDER TITLE 10 OR 32 OF THE UNITED STATES CODE AND THE SALARY RECEIVED BY A RESIDENT MEMBER OF THE STATE MILITIA WHILE ON STATE MILITARY DUTY; AMENDING SECTION 15-30-116, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

**Section 1.** Section 15-30-116, MCA, is amended to read:

**"15-30-116. Veterans' bonus, military salary, or death benefit -- exemptions.** (1) All payments made under the World War I bonus law, the Korean bonus law, and the veterans' bonus law are exempt from taxation under this chapter. Any income tax that has been or may be paid on income received from the World War I bonus law, Korean bonus law, and the veterans' bonus law is considered an overpayment and must be refunded upon the filing of an amended return and a verified claim for refund on forms prescribed by the department in the same manner as other income tax refund claims are paid.

(2) The salary received ~~from the armed forces by residents~~ a resident of Montana ~~who are serving on active duty in the regular armed forces and who entered into active duty from Montana under the provisions of Title 10 or 32 of the United States Code for military service, including service in the national guard or as a reservist in the armed forces,~~ is exempt from ~~state income tax~~ taxation under this chapter.

(3) The salary received by a Montana resident who is a member of the state militia provided for in 10-1-103 for state military duty is exempt from taxation under this chapter.

~~(3)(4)~~ (4) The amount received pursuant to 10-1-1114 or from the federal government by a service member, as defined in 10-1-1112, as reimbursement for group life insurance premiums paid is considered to be a bonus and is exempt from taxation under this chapter.

~~(4)(5)~~ (5) The amount received by a beneficiary pursuant to 10-1-1201 is exempt from taxation under this chapter."

1        NEW SECTION. **Section 2. Effective date.** [This act] is effective on passage and approval.

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3        NEW SECTION. **Section 3. Retroactive applicability.** [This act] applies retroactively, within the  
4 meaning of 1-2-109, to tax years beginning after December 31, 2008.

5

- END -

# Income, Deductions, Credits, and Tax from 2008 and 2009 Returns

## Deductions as % of Montana Adjusted Gross Income Full Year Residents 2008 and 2009

Decile Group	2008			2009		
	Itemized Deductions	Standard Deductions	All	Itemized Deductions	Standard Deductions	All
1	-37%	-93%	-48%	-33%	-70%	-40%
2	99%	36%	53%	112%	37%	59%
3	65%	23%	39%	67%	24%	40%
4	48%	21%	33%	51%	21%	34%
5	38%	19%	28%	40%	19%	29%
6	32%	16%	25%	33%	16%	26%
7	30%	15%	26%	31%	15%	26%
8	28%	14%	26%	29%	14%	26%
9	26%	11%	25%	26%	11%	25%
10	17%	6%	16%	18%	6%	17%
All	26%	20%	25%	27%	21%	26%

## Taxable Income and Tax Full Year Residents 2008 and 2009

Decile Group	2008						2009					
	Taxable Income			Tax Liability			Taxable Income			Tax Liability		
	\$ million	Average	% of Total	\$ million	Average	% of Total	\$ million	Average	% of Total	\$ million	Average	% of Total
1	\$0.4	\$7	0%	\$0.0	\$0	0%	\$0.2	\$3	0%	\$0.0	\$0	0%
2	\$72.2	\$1,340	1%	\$0.8	\$16	0%	\$59.6	\$1,125	0%	\$0.7	\$13	0%
3	\$231.3	\$4,293	2%	\$4.3	\$79	1%	\$210.3	\$3,971	2%	\$3.8	\$72	1%
4	\$421.6	\$7,827	3%	\$11.0	\$204	1%	\$387.2	\$7,310	3%	\$9.9	\$187	1%
5	\$656.4	\$12,184	5%	\$22.4	\$416	3%	\$610.8	\$11,533	5%	\$20.6	\$388	3%
6	\$929.6	\$17,256	7%	\$39.0	\$723	5%	\$877.4	\$16,567	7%	\$36.4	\$687	5%
7	\$1,206.9	\$22,404	9%	\$57.3	\$1,063	7%	\$1,151.5	\$21,742	9%	\$54.4	\$1,027	8%
8	\$1,552.1	\$28,811	11%	\$80.7	\$1,498	11%	\$1,495.6	\$28,239	12%	\$77.6	\$1,465	11%
9	\$2,119.9	\$39,352	15%	\$119.6	\$2,221	16%	\$2,057.0	\$38,839	16%	\$116.1	\$2,192	16%
10	\$6,658.5	\$123,602	48%	\$432.7	\$8,032	56%	\$5,973.9	\$112,793	47%	\$386.3	\$7,293	55%
All	\$13,848.8	\$25,708		\$767.8	\$1,425		\$12,823.4	\$24,212		\$705.7	\$1,332	

## Tax As % of Adjusted Gross Income Full Year Residents 2008 and 2009

Decile Group	2008			2009		
	Montana Adjusted Gross Income	Tax Liability	Tax / Income	Montana Adjusted Gross Income	Tax Liability	Tax / Income
	\$ million	\$ million	%	\$ million	\$ million	%
1	-\$459.1	\$0.0	0.0%	-\$582.2	\$0.0	0.0%
2	\$316.0	\$0.8	0.3%	\$290.9	\$0.7	0.2%
3	\$577.3	\$4.3	0.7%	\$542.3	\$3.8	0.7%
4	\$854.5	\$11.0	1.3%	\$810.7	\$9.9	1.2%
5	\$1,146.3	\$22.4	2.0%	\$1,098.0	\$20.6	1.9%
6	\$1,479.8	\$39.0	2.6%	\$1,422.0	\$36.4	2.6%
7	\$1,882.6	\$57.3	3.0%	\$1,818.9	\$54.4	3.0%
8	\$2,378.5	\$80.7	3.4%	\$2,308.6	\$77.6	3.4%
9	\$3,130.9	\$119.6	3.8%	\$3,042.3	\$116.1	3.8%
10	\$8,272.2	\$432.7	5.2%	\$7,535.3	\$386.3	5.1%
All	\$19,579.2	\$767.8	3.9%	\$18,286.7	\$705.7	3.9%



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

**Bill #** HB0637

**Title:** Provide income tax exemption for military service

**Primary Sponsor:** Klock, Harry

**Status:** As Introduced

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$3,408,000)	(\$1,169,000)	\$0	\$0
<b>Net Impact-General Fund Balance</b>	<u>(\$3,408,000)</u>	<u>(\$1,169,000)</u>	<u>\$0</u>	<u>\$0</u>

### Description of fiscal impact:

This bill would exempt military pay of Montana National Guard and Reserve members from state income tax. This would reduce general fund revenue by \$3.4 million in fiscal year 2008 and \$1.169 million in fiscal year 2009.

### FISCAL ANALYSIS

#### Assumptions:

1. Current law (15-30-116, MCA) exempts military salaries of members of the armed forces on active duty from the state income tax. This bill would expand that exemption to cover the military salaries paid to national guard and reserve members, beginning with tax year 2007. The bill terminates the end of 2008. It would not exempt the salaries of civilian employees or salaries earned in connection with disaster or emergency service.
2. Total salaries paid to the Montana National Guard that would be exempted by this bill were \$33.7 million in 2006 (Department of Military Affairs). Total salaries in future years are assumed to be the same.
3. The number of Montana reservists is 27.5% of the number of National Guard members (U.S. Department of Defense). Assuming that, on average, annual salaries for reservists and Guard members are the same,

total salaries paid to Montana Guard and Reserve members are \$43.0 million per year ( $127.5\% \times \$33.7$  million).

4. For 2005, the average marginal tax rate of residents with taxable income was 5.44%. The average marginal rate will be the same in future years.
5. This bill will reduce tax liability by \$2.339 million ( $5.44\% \times \$43.0$  million) per year in tax years 2007 and 2008.
6. This bill would be effective on passage and approval. State taxes would no longer be withheld from Guard and Reserve members' military salaries, beginning in July 2007. In addition, Guard and Reserve members would have \$1.169 million in taxes that were withheld in the first half of 2007 refunded in the spring of FY 2008. This bill would therefore reduce general fund revenue by \$3.408 million in FY 2008 ( $\$2.239$  million +  $\$1.169$  million). In FY 2009 state taxes would not be withheld for six months of the fiscal year, thereby reducing general fund revenue by \$1.169 million ( $2.239 \times .5$ ). The bill terminates on December 31, 2008 (midway through FY 2009).
7. This bill would not affect the Department of Revenue's costs of administering the individual income tax.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b><u>Revenues:</u></b>				
General Fund (01)	(\$3,408,000)	(\$1,169,000)	\$0	\$0
<b>TOTAL Revenues</b>	<u>(\$3,408,000)</u>	<u>(\$1,169,000)</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$3,408,000)	(\$1,169,000)	\$0	\$0

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*Sponsor's Initials*


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*Date*


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*Budget Director's Initials*


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*Date*